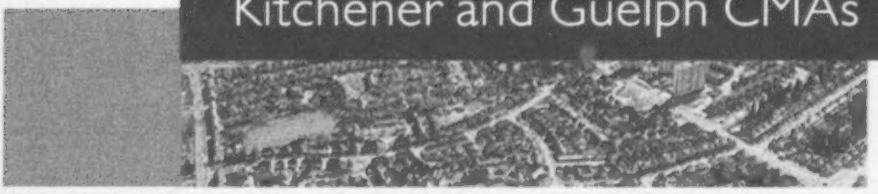
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Kitchener and Guelph CMAs



Canada Mortgage and Housing Corporation

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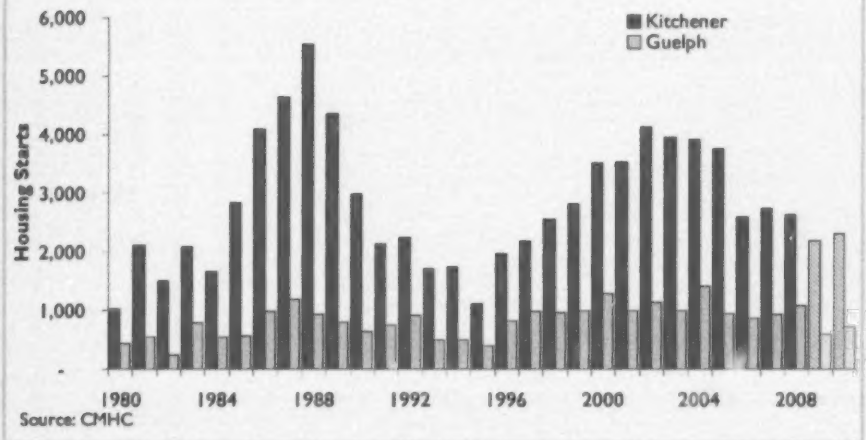
New Home Market

Starts Down

Housing starts in the Kitchener and Guelph Census Metropolitan Areas (CMAs) will decrease significantly in 2009, before increasing marginally in 2010. Home starts in the Kitchener CMA will reach 2,200 in 2009, down 16 per cent from the 2,634 homes started in 2008. Guelph CMA housing starts in 2009 will drop by 49 per cent to 550 from the 1,087 homes started in 2008. Higher unemployment, less spillover demand from the resale home market, and satiation of the pent-up demand that built up during the 1990s are all weighing on activity in the new home market. Single starts will be down in both communities, but whereas apartment starts will hold their own

Figure 1

Housing Starts Plateau



Source: CMHC

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in Kitchener, they will fall to about a quarter of their 2008 level in Guelph.

Single-detached starts in both CMAs will decline sharply. Kitchener CMA single-detached starts will decrease by 24 per cent to 1,100 units, while Guelph CMA detached starts will fall by 41 per cent to 250 units. The strong price growth in the last ten years and economic uncertainty will combine to push detached starts to their lowest level since 1995. Demand from move-up buyers usually supports detached starts, but the uncertainty about both job security and the sale of their current home will keep many homebuyers on the sidelines throughout 2009.

Price growth pressures will ease as demand for single-detached homes falls. The average price of a newly-completed single-detached home in the Kitchener CMA will reach $345,000 in 2009, down two per cent. In the Guelph CMA, single-detached prices will slip by two per cent to $365,000. The decline in the average price is due to a change in the mix of houses being built. Homebuyers are looking for more modest homes priced under $350,000, and as their proportion in the mix increases, the average price is pulled down. The New Housing Price Index (NHPI) which measures changes in prices of new houses of constant quality will remain unchanged in 2009.

As demand has fallen for single-detached homes, the number of unsold units has been trending slightly higher, but nowhere near the level recorded in the early 1990s. Current inventory levels are unlikely to adversely affect starts or prices going forward as many builders only build when homes are sold. Although there is a good supply of undeveloped land in the CMA, serviced lots available for single-detached housing are becoming scarcer in some municipalities and with the emphasis on intensification, more intense building forms will continue to play a significant role in new construction.

Apartment construction in the Kitchener CMA will remain at the strong level witnessed since 2000. There is strong demand for rental housing in Kitchener due to its young population, high number of students and recent immigrants. As house prices have risen, the more affordable condominium has become a viable option. Several condominium projects are in the works throughout the Kitchener CMA. On the other hand, Guelph condominium starts will pull back in 2009 as the above-average level of units started in 2008 will take time to be absorbed. Townhome and semi-detached construction will remain at current levels, as these types of housing are a more affordable option for homebuyers.

Resale Home Market

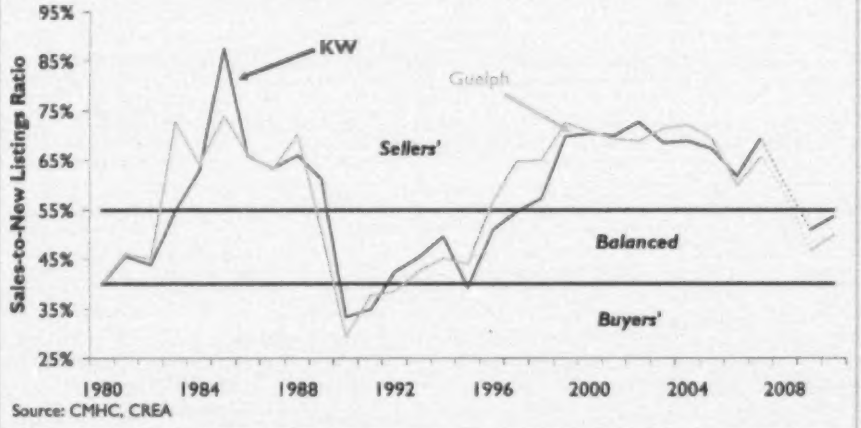
Sales Slide

The resale market in the Kitchener-Guelph area will continue to ease in 2009. Sales of existing homes through the Kitchener-Waterloo Real Estate Board will decline by 19 per cent to 5,100 sales in 2009. Sales through the Guelph and District Real Estate Board will reach 2,200 sales in 2009, down 21 per cent. As the economy stabilizes, job market and affordability improvement combined will cause sales to rebound slightly in 2010.

The supply of resale homes will move slightly lower in 2009 with some homeowners taking a wait and see attitude. For homeowners who have been in their home for several

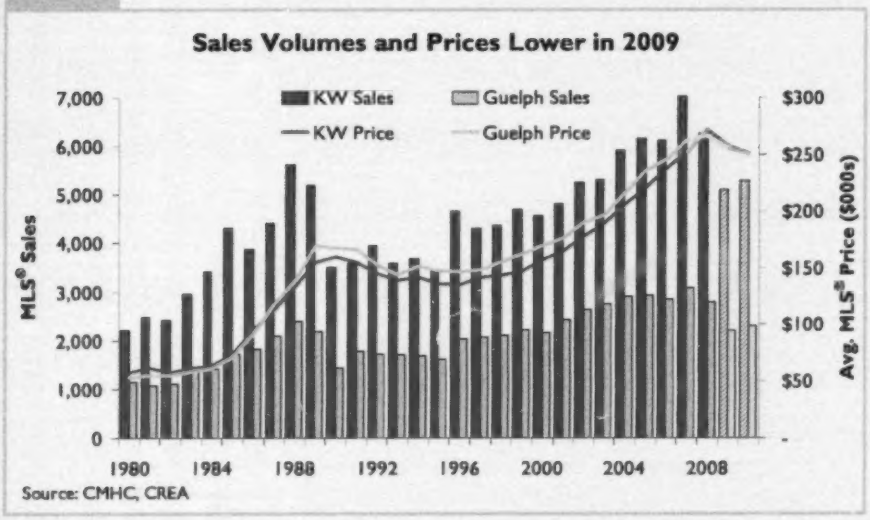
Figure 2

Resale Home Markets Balanced in 2009



Source: CMHC, CREA

Figure 3



years, some may still list their homes for sale to take advantage of the equity they have gained, as well as the historically low mortgage rates.

Still with new listings at a high level and sales slumping, the sales-to-new listings ratio (SNLR), a leading indicator of price growth and a measure of the state of the resale market, will move lower. The lower SNLR will indicate a market that is more in favour of the buyer. In a buyer's market, expect price declines to continue and homes on the market to remain there longer.

Resale home prices will slip in the Kitchener-Guelph area in 2009, after 12 consecutive years of price growth. The average price of a resale homes through the KW Board will decline by five per cent to $257,000. Although lower, expected prices in 2009 are two per cent higher than the average resale price recorded in 2007. Guelph prices are expected to decline by five per cent to $255,000. Price declines will continue into 2010.

Economic Trends

The outlook for the economy has weakened since the last forecast. Consumer spending and exports will continue to contract in 2009. Ontario will face the slowest economic growth rate since the early 1990s. Kitchener CMA consumer bankruptcies are up in the last three months. Housing demand will decline due to the economic uncertainty and less household disposable income.

Employment

Due to economic conditions that continue to deteriorate, employment in Kitchener-Guelph is expected to decrease in 2009. Employment in the Kitchener and Guelph CMAs will decline by two per cent. As the labour force will continue to increase, the unemployment rate is expected to reach nine per cent in the Kitchener CMA and eight per cent in the Guelph CMA in 2009. Participation rates in the Kitchener CMA are the highest in the province, resulting in an unexpectedly high unemployment rate as more people compete for the few jobs available.

Full-time jobs will be most affected by the downturn in employment and, it is full-time employment that drives housing demand. On a more positive note in the Kitchener CMA, RIM is expected to hire 3,000 more employees in 2009, while OpenText has job openings for more than 200.

The goods sector will continue to contract because of the manufacturing sector and an export market which will

Figure 4

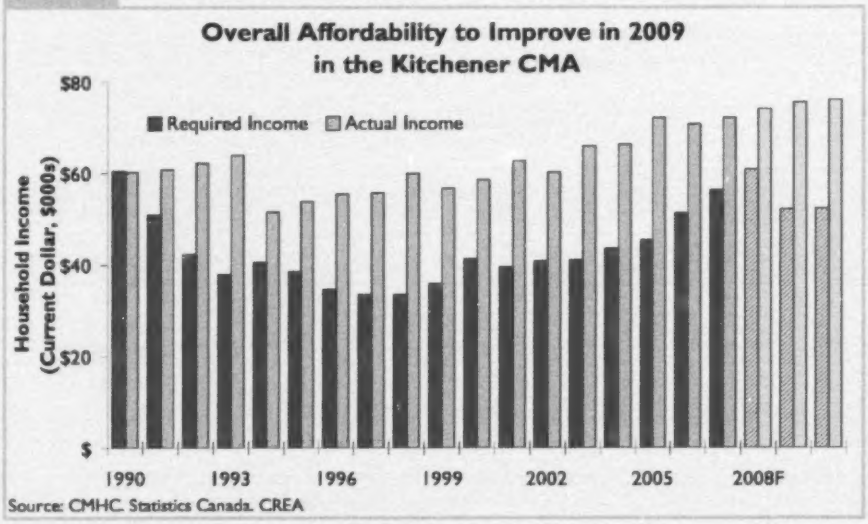
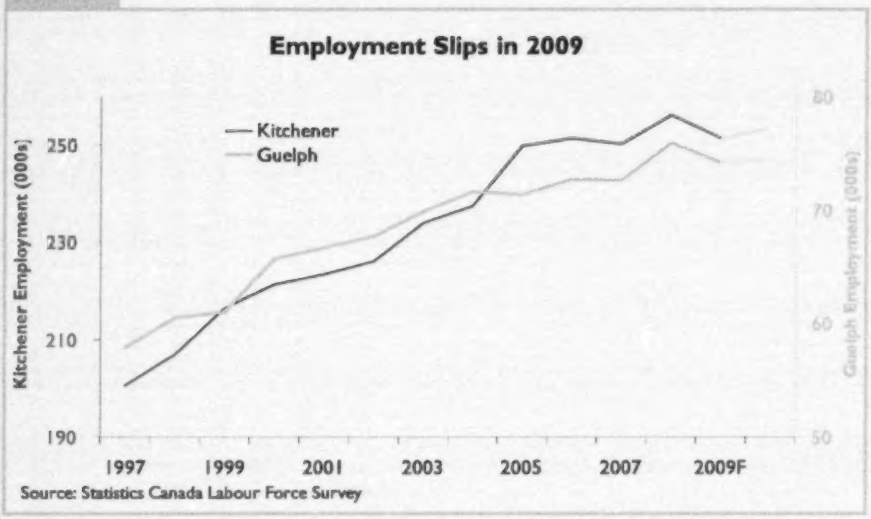


Figure 5



Source: Statistics Canada Labour Force Survey

see negative growth this year. The manufacturing sector has been contracting for the last four years and with turmoil in the automotive sector, the job shedding will continue. Guelph has sustained a harder hit from the downturn in the automotive sector than has Kitchener. Guelph manufacturing, as a percentage of total employment, has dropped from 26 per cent in the first quarter of 2008, to 20 per cent in the same period of 2009. In both CMAs, while the services sector has been supporting employment growth, lower consumer spending will weaken growth in this sector through 2009.

Older employees will be hard hit by the downturn in the economy, impacting move-up buyer demand. Some older employees will be forced into early retirement as companies downsize to trim overhead costs and to remain viable. Many of these employees will remain in the labour force. On the other hand, youth employment will fluctuate near current levels, benefiting the rental market.

Average Weekly Earnings

A rising jobless rate, less inflationary pressures and the decline in some higher paying jobs will dampen wage growth this year. Wage growth in the Kitchener CMA is expected to be near two per cent in 2009, while Guelph CMA earnings are forecast to increase by one per cent. The lower level of wage growth in 2009 will be a small contributing factor to the decline in housing demand. A plus for the rental market is the increase in the minimum wage in Ontario by eight per cent in March, enabling some people to form households.

Migration

Net migration is forecast to be 2,500 in 2009 in the Kitchener CMA and 900 in the Guelph CMA. Although slowing, inter-provincial migration to the west continues, resulting in lower net migration. Employment is a strong driver of migration to the Kitchener CMA. Kitchener has the second highest employment rate in Ontario and continues to attract households to the area. International migration is the driving force behind any migration growth in the CMAs, but does little to increase immediate ownership demand, as renting is the most prevalent tenure choice among those new to Canada.

Figure 6

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary Kitchener CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	6,115	7,031	6,269	5,100	-18.6	5,300	3.9
MLS® New Listings	9,896	10,164	10,521	10,000	-5.0	9,900	-1.0
MLS® Average Price ($)	237,913	252,429	271,222	257,000	-5.2	251,000	-2.3
New Home Market							
Starts:							
Single-Detached	1,542	1,159	1,446	1,100	-23.9	1,100	0.0
Multiples	1,057	1,581	1,188	1,100	-7.4	1,200	9.1
Semi-Detached	210	234	82	60	-26.8	60	0.0
Row/Townhouse	545	594	569	540	-5.1	560	3.7
Apartments	302	753	537	500	-6.9	580	16.0
Starts - Total	2,599	2,740	2,634	2,200	-16.5	2,300	4.5
Average Price ($):							
Single-Detached	313,149	345,819	352,644	345,000	-2.2	342,000	-0.9
New Housing Price Index (% chg.)	4.1	1.5	2.4	0.0	-	0.0	-
Rental Market							
October Vacancy Rate (%)	3.3	2.7	1.8	1.6	-0.2	1.5	-0.1
Two-bedroom Average Rent (October) ($)	824	829	845	860	-	875	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	251,400	250,300	256,100	251,400	-1.8	253,600	0.9
Employment Growth (%)	0.6	-0.4	2.3	-1.8	-	0.9	-
Unemployment rate (%)	5.2	5.5	6.0	9.1	-	9.1	-
Net Migration [1]	1,973	2,000	2,000	2,500	25.0	2,500	0.0

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

Forecast Summary Guelph CMA Spring 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	2,859	3,088	2,794	2,200	-21.3	2,300	4.5
MLS® New Listings	4,771	4,704	4,830	4,700	-2.7	4,600	-2.1
MLS® Average Price ($)	245,676	262,186	267,329	255,000	-4.6	250,000	-2.0
New Home Market							
Starts:							
Single-Detached	485	575	425	250	-41.2	275	10.0
Multiples	379	366	662	300	-54.7	350	16.7
Semi-Detached	80	58	44	50	13.6	50	0.0
Row/Townhouse	205	274	160	150	-6.3	150	0.0
Apartments	94	34	458	100	-78.2	150	50.0
Starts - Total	864	941	1,087	550	-49.4	625	13.6
Average Price ($):							
Single-Detached	342,330	360,882	371,957	365,000	-1.9	363,000	-0.5
New Housing Price Index (% chg.) (Ont.)	3.7	2.6	3.5	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.8	1.9	2.3	2.0	-0.3	1.9	-0.1
Two-bedroom Average Rent (October) ($)	839	848	869	885	-	900	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	72,700	72,600	75,900	74,200	-2.2	74,500	0.4
Employment Growth (%)	1.8	-0.1	4.5	-2.2	-	0.4	-
Unemployment rate (%)	5.5	5.7	5.5	7.9	-	8.0	-
Net Migration (Ont.) [1]	83,561	85,809	87,805	88,600	0.9	95,000	7.2

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